

AR27

1977

ANNUAL REPORT



PLATE GAS & OIL COMPANY LIMITED

PLACE GAS & OIL COMPANY LIMITED

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PLACE GAS & OIL COMPANY LIMITED

DIRECTORS	J. D. S. Bohme, Q.C.	Toronto, Ontario
	Sir Michael Butler, Bart., Q.C.	Victoria, B.C.
	D. C. Early	Toronto, Ontario
	W. H. German	Montreal, Quebec
	W. D. Gill, M.A., D.Sc.	London, England
	J. E. Houston	Toronto, Ontario
	C. R. J. Smith	Toronto, Ontario
	E. H. Smouha	Geneva, Switzerland
	P. G. Turner	Toronto, Ontario
OFFICERS	C. R. J. Smith	<i>President</i>
	Sir Michael Butler, Bart., Q.C.	<i>Vice-President</i>
	J. D. S. Bohme, Q.C.	<i>Secretary</i>
	G. H. Weston	<i>Treasurer</i>
HEAD OFFICE	Suite 1908 — Royal Trust Tower, Toronto, Ontario M5K 1H6	
FIELD OFFICE	Nanticoke, Ontario N0A 1L0	
TRANSFER AGENT & REGISTRAR	Canada Permanent Trust Company, Toronto, Ontario	
AUDITORS	Harbinson, Glover & Co.	

PLACE OIL & GAS COMPANY (U.K.) LIMITED

Wholly owned — English Subsidiary Company

HEAD OFFICE	35 Basinghall Street, London EC2V 5DB, England	
DIRECTORS	Clifford R. J. Smith, <i>Chairman of the Board</i> ,	Toronto, Ontario
	J. D. S. Bohme, Q.C.	Toronto, Ontario
	Sir Michael Butler, Bart, Q.C.	Victoria, B.C.
	W. D. Gill, M.A., D.Sc.	London, England
	E. H. Smouha	Geneva, Switzerland

PLACE GAS & OIL COMPANY LIMITED

DIRECTOR'S REPORT

To the Shareholders:

On behalf of the Board of Directors it gives me great pleasure to report the Company's 1977 activities and statement of accounts.

Revenue from gas production and miscellaneous activities in Lake Erie for 1977 reached almost one million dollars — which is an increase over 1976 revenues of approximately 20 percent. Experimental offshore production drilling and market planning activities of gas reserves from the High Arctic Islands by the consortium operator, and having a resident representative in Calgary, Alberta, to more readily participate in the exploration opportunities in Alberta, should enhance the future of your Company.

Lake Erie

Gas production from our offshore Fields in Lake Erie for 1977 increased by approximately one hundred million cubic feet over 1976, which, combined with further higher prices, substantially improved our revenue from gas sales to \$923,088.00. Under the Place Lake Erie offshore holdings, it is estimated that there are at least 20 billion cu.ft. of recoverable gas reserves. The gas production from Lake Erie is gathered by our own pipeline system to meter stations located at Port Dover, Selkirk and Port Maitland, including the jointly owned Place-Mitchell gas, and at these points it is sold to Union Gas Limited, who in turn retail to their customers throughout southern Ontario.

Under our Contract with Union Gas Limited, the last price we received in 1977 was approximately \$1.52 Mcf. The contract for the sale of our gas to Union Gas Limited is related to the Trans Canada Pipeline Alberta natural gas price which varies from time to time, and allows us to benefit when higher gas prices are granted to the gas marketing utilities in Ontario. In early 1978, the gas price was raised to approximately \$1.60 plus Mcf, and further increases are expected during 1978.

The gas production which we share under a joint account and located offshore Lake Erie from Rainham Township, with Anschutz (Canada) Exploration Limited as operator, is sold to Consumers Gas Company through the Anschutz pipeline system at approximately the same prices.

Five wholly owned wells were drilled during the 1977 season with our own offshore drilling equipment. One well drilled in the Port Dover area was a commercial gas well; one of two wells drilled in the Port Maitland area was completed as a commercial gas well and the other well did not show sufficient gas to be completed and was abandoned; another well was drilled in the Selkirk area and completed as a commercial gas well and the fifth well drilled late in the season, also located in the Selkirk area, had indications of being a commercial gas well but could not be completed owing to an early storm which damaged our offshore platform equipment, and this well is being held suspended for completion in the 1978 season.

Lake Erie Natural Gas Production

	1976 M.Cu.Ft.	1977 M.Cu.Ft.
Wholly owned Walpole Field	195,471	226,806
Jointly owned		
Walpole-Rainham Fields	136,230	159,286
Wholly owned Port Dover		
Field	166,820	215,906
Wholly owned Port Maitland		
Field	59,700	54,661
	<u>558,221</u>	<u>656,659</u>

During the winter months, with the offshore season closed, your Company contracted to abandon old wells located throughout southern Ontario, and this kept our drilling crews and certain equipment fully utilized.

PLACE GAS & OIL COMPANY LIMITED

Your Company maintains a complete offshore drilling and production operation which includes tugs, barges, diving teams etc., and one small drilling platform capable of drilling in 40-50 feet of water. The second platform is considered non-operational.

It is planned to drill 3-4 wells offshore Lake Erie during the 1978 season.

Your Company owns a 100% interest in 52 commercial gas wells and a 50% interest in 27 commercial gas wells and approximately 35 miles of pipeline gathering system — and one well owned 100% is being held suspended.

The acreage now held in good standing by your Company in Lake Erie is as follows:—

A 100% Interest in:

Offshore Leases in Lake Erie	25,424.47 Acres
Offshore Licenses of Occupation in Lake Erie	18,132.15 Acres
	<u>43,556.62 Acres</u>

and a 50% Interest in:

Offshore Leases in Lake Erie	16,855.21 Acres
Offshore Licenses of Occupation in Lake Erie	25,979.61 Acres
	<u>42,834.82 Acres</u>

Canadian Arctic Islands

Panarctic Oils Limited, the leading oil and gas exploration company in the Canadian Arctic Islands and operator of properties in which your Company holds an interest, with the exception of the Hazen Strait, has this past year put greater emphasis on the marketing aspects

of the proven 16 trillion cu.ft. of natural gas reserves discovered to date in the Arctic Islands. A well, located offshore the east side of the Sabine Peninsula, Melville Island, will be drilled and completed underwater with a gathering line to a shore base. A number of new techniques are being applied in this project to establish the most efficient and economical way to produce gas from the offshore part of the Drake gas field, and the same principles will be applied to producing the offshore part of the Hecla gas field on the western side. In addition to the studies for a proposed pipeline down the western side of Hudson's Bay, a great deal of research is being applied to building a pipeline from a central point on the Sabine Peninsula, Melville Island, which would gather the natural gas from the wells drilled both on and offshore the Drake and Hecla fields, and bring it to the southern shore of Melville Island to a proposed LNG (liquid natural gas) plant for liquefaction of the gas for shipment to the east coast of Canada and the United States, using specially constructed ships designed to withstand the thick Arctic ice conditions. This could be a year-round operation. It is expected that gas production will be marketed from the Arctic Islands by pipeline and/or LNG shipping by the early 1980's. The LNG shipping should be in force before pipeline.

From 1972 to 1976 inclusive, Pacific Lighting Gas Development Company, in return for first call to purchase the gas produced beyond Government requirements, advanced the required funds to cover our share of exploration costs of drilling by Panarctic Oils Limited in the Canadian Arctic Islands. These advances represented approximately four hundred and fifty thousand dollars plus interest, and are only repayable if, as and when gas is sold from the wells for which Pacific Lighting funds were used.

PLACE GAS & OIL COMPANY LIMITED

Original Arctic Islands Holdings

<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
Sabine Peninsula Melville Island	Panarctic Oils Ltd.	689,145	1.35	472, 474, 475 & 477 to 488
King Christian Island	" "	81,356	1.35	503, 506 & 876
Loughheed Island	" "	57,210	1.35	501 & 502
<u>TOTAL Original Holdings</u>		<u>827,711</u> Acres		

After Acquired Arctic Islands Holdings

<u>Location</u>	<u>Operator</u>	<u>Total Acreage</u>	<u>Net % Interest</u>	<u>Permit Numbers</u>
West Sabine Peninsula (Hecla Gas Field)	Panarctic Oils Ltd.	30,420 30,601 30,148 15,210 14,938 <u>121,317</u>	.675 .675 .675 .675 .675	1832 2474 2473 2715 (1/2) 3132 (1/2)
East Sabine Peninsula (Drake Gas Field)	Panarctic Oils Ltd.	30,057 30,148 30,601 30,601 <u>121,407</u>	.2025 .3375 .675 .675	1829 1985 701 702
North Sabine Peninsula	Panarctic Oils Ltd.	29,151 29,151 <u>58,302</u>	.54 .54	1568 1567
Hazen Straights	Phillips Petroleum	931,000	2.647	2699 to 2714
<u>TOTAL After Acquired Holdings</u>		<u>1,232,026</u> Acres		

PLACE GAS & OIL COMPANY LIMITED

In the Canadian Arctic Islands, you will note that your Company holds a 1.35% interest in approximately 827,711 acres, plus a smaller interest in 301,026 acres, all of which is under the operation of Panarctic Oils and includes part of the proven gas reserves of the Drake, Hecla and King Christian Island fields. Although your Company does not have an interest in all of the drilled acreage containing proven gas reserves of over 16 trillion cu.ft. in the Arctic Islands, it is reasonable to estimate that 11 trillion cu.ft. of these reserves are shared by your Company.

Your Company also has a 2.647% interest in approximately 931,000 acres operated by Phillips Petroleum, on which they have completed certain seismic studies and, in addition, an ice movement study is underway to establish the feasibility of drilling a well from an ice platform. However, a well on those holdings is at least a year away. The Panarctic et al AIEG Roche Point 0-43 well currently drilling offshore just north of the Hecla Gas Field on the western side of the Sabine Peninsula, Melville Island and southeast of our Hazen Strait holdings, will materially help to evaluate part of the Hazen Strait acreage.

Your Company, therefore, holds varied interests in a total of approximately 2,059,737 acres in the Canadian High Arctic Islands.

Alberta

Your Company's one-quarter interest in the drilling of six wells on the Black Butte Syndicate's acreage located in the southeast corner of Alberta resulted in two abandoned wells and four small commercial gas wells presently shut-in, which earned your Company an acreage interest in 5 1/2 sections with an option to drill on an additional six sections.

The Fenn Big Valley Well No. 6-34-34-20 was drilled in early 1978 to approximately 6,000 ft. and abandoned, on acreage located in the southeast Big Valley Area in Central Alberta. Your Company holds a one-quarter interest in this well with Anschutz (Canada) Exploration Limited as operator. The drilling of this well earned us an interest in two sections of land, with an option to drill on an additional 2 3/4 sections on adjoining acreage. Results of this well are currently being analysed to assess the possibility of additional drilling.

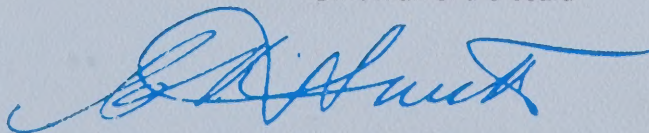
Your Company also has a one-quarter interest in a Farmout Agreement to drill three wells in the Bantry area of southeastern Alberta, covering an area of four sections, with an option to drill on an additional 2 1/2 sections. This drilling program should start in March, 1978.

Other Interests

Through our wholly owned Subsidiary, Place Oil & Gas Company (U.K.) Limited, we still retain a 15% interest in Production License PL099 located on land in Worcestershire in the United Kingdom, on which further exploration work is pending.

On behalf of the Directors, management sincerely acknowledges the support of its staff and the support and confidence received from its shareholders and co-operation of its exploration associates.

On behalf of the board

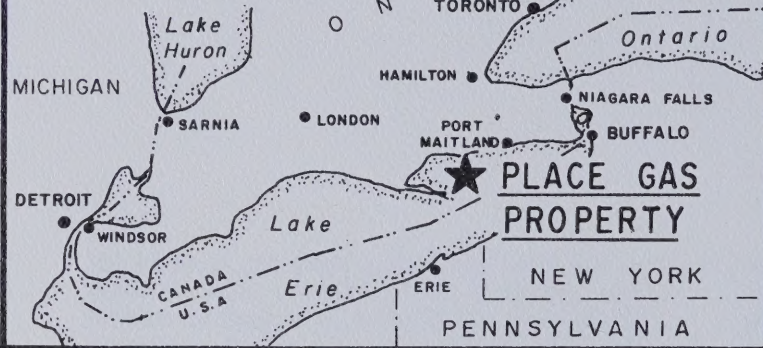


CLIFFORD R.J. SMITH
President and Managing Director

March 7th, 1978

LOCATION MAP

0 80 MILES



To Union Gas Meter

PORT DOVER

NANTICOKE

SELKIRK
To Union Gas Meter

L a k e

OFFSHORE GAS FIELD











PORT DOVER, WALPOLIS

Long Point



E r i e

LEGEND

-  PLACE GAS & OIL CO. LTD. leases and licences
-  PLACE - MITCHELL farmout acreage
-  PLACE - ANSCHUTZ farmout acreage
-  Commercial gas well
-  Abandoned well
-  PLACE 6" pipeline
-  PLACE 3" pipeline
-  PLACE 2" pipeline
-  PLACE - MITCHELL 4" pipeline
-  PLACE - MITCHELL 2" pipeline

PLACE GAS & OIL COMPANY LIMITED

SHOWING THE

GAS AND PIPELINE GATHERING SYSTEMS

IN THE

PORT MAITLAND, RAINHAM AND PORT MAITLAND AREAS

IN THE NORTHWESTERN LAKE ERIE, ONTARIO



MILES

PLACE GAS & OIL COMPANY LIMITED

BALANCE SHEET AS AT DECEMBER 31, 1977

ASSETS

	<u>1977</u>	<u>1976</u>
Current:		
Cash and term deposits	\$ 236,215	\$ 316,107
Accounts receivable	120,273	86,181
Prepaid expenses	27,290	24,950
Marketable securities at cost (market value \$217,658) . . .	213,705	38,745
	<u>597,483</u>	<u>465,983</u>
Investments:		
Interests in oil syndicates at cost (Note 6)	654,631	516,156
Other investments and interests (Note 2)	62,589	33,112
	<u>717,220</u>	<u>549,268</u>
Fixed, at cost (Notes 1 and 5)	2,523,659	2,318,431
Less: Accumulated depreciation	1,145,617	1,028,651
	<u>1,378,042</u>	<u>1,289,780</u>
Deferred development and other expenses (Note 1)	—	245,279
	<u>\$2,692,745</u>	<u>\$2,550,310</u>

LIABILITIES

Current:		
Accounts payable	\$ 69,846	\$ 149,178
Amounts payable from future production revenue (Note 6)	<u>566,837</u>	<u>440,400</u>

SHAREHOLDERS' EQUITY

Capital stock:		
Authorized:		
8,000,000 Shares of \$1 par value each		
Issued (Note 7):		
5,800,007 Shares	3,798,632	3,798,632
Deficit	<u>1,742,570</u>	<u>1,837,900</u>
	<u>2,056,062</u>	<u>1,960,732</u>
	<u>\$2,692,745</u>	<u>\$2,550,310</u>

Approved on behalf of the Board:

C.R.J. SMITH
..... Director.

P.G. TURNER
..... Director.

PLACE GAS & OIL COMPANY LIMITED

STATEMENT OF EARNINGS AND DEFICIT for the year ended December 31, 1977

	<u>1977</u>	<u>1976</u>
Revenue:		
Gas and oil	\$ 923,088	\$ 688,983
Miscellaneous	70,792	104,193
	<u>993,880</u>	<u>793,176</u>
Expenses:		
Head office and administrative	126,385	112,597
Production	229,582	222,621
Exploratory and development	35,195	46,365
Depreciation and depletion	117,066	84,683
Deferred development (Note 1)	245,279	326,910
	<u>753,507</u>	<u>793,176</u>
Income before extraordinary items	<u>240,373</u>	<u>—</u>
Extraordinary items (Note 9):		
Cost of wells abandoned	27,974	48,363
Write-off of other projects and interest	117,069	12,680
	<u>145,043</u>	<u>61,043</u>
Net income (loss) for the year (Note 9)	95,330	(61,043)
Deficit, beginning of year	<u>1,837,900</u>	<u>1,776,857</u>
Deficit, end of year	<u>\$1,742,570</u>	<u>\$1,837,900</u>

PLACE GAS & OIL COMPANY LIMITED

STATEMENT OF DEFERRED DEVELOPMENT AND OTHER EXPENSES for the year ended December 31, 1977

	<u>1977</u>	<u>1976</u>
Deferred development and other expenses, beginning of year	\$245,279	\$572,189
Charged against earnings	<u>245,279</u>	<u>326,910</u>
Deferred development and other expenses end of year	<u>\$ —</u>	<u>\$245,279</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION for the year ended December 31, 1977

	<u>1977</u>	<u>1976</u>
Funds derived from:		
Net revenue before depreciation and depletion	<u>\$457,675</u>	<u>\$350,550</u>
Funds applied to:		
Investments and advances	41,515	(8,963)
Fixed assets, net	<u>205,328</u>	<u>155,763</u>
	<u>246,843</u>	<u>146,800</u>
Net increase (Note 9)	210,832	203,750
Working capital, beginning of year	<u>316,805</u>	<u>113,055</u>
Working capital, end of year	<u>\$527,637</u>	<u>\$316,805</u>

AUDITORS' REPORT

To the Shareholders of
Place Gas & Oil Company Limited.

We have examined the balance sheet of Place Gas & Oil Company Limited as at December 31, 1977 and the statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements

present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HARBINSON, GLOVER & CO.
Chartered Accountants.

Toronto, Ontario,
February 8, 1978.

PLACE GAS & OIL COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

as at December 31, 1977

1. Accounting policies:

- Development and other expenses are reduced at the rate of excess revenue over expenses.
- Depreciation is calculated on the straight line method at 10% for buildings and equipment.
- Wells, gathering systems and oil and gas rights are depleted by the unit of production method based on estimated proven gas reserves.

2. Other investments and interests:

Wholly-owned subsidiary (Note 3):

Shares, at nominal value	\$	1
Affiliated companies and other interest at nominal value		7
Shares in Panarctic Oils Limited at cost		20,150
Securities on deposit, at cost		5,525
Mortgage receivable, 9%		6,906
Investment in Sabre Resources Limited (Note 4)		30,000
	\$	<u>62,589</u>

3. Place Oil & Gas (U.K.) Limited, a wholly-owned subsidiary, has surrendered its leases, with the exception of an interest in one land lease, and consequently Place Gas & Oil Company Limited wrote down its investments in Place Oil & Gas (U.K.) Limited to a nominal value of \$1.00.

4. Under an agreement dated August 30, 1977 Place Gas & Oil Company Limited is a party to a limited partnership referred to as Sabre Resources Limited and is committed to a further \$70,000 upon call.

5. Fixed assets:

	<u>Asset</u>	<u>Accumulated Depreciation</u>
Land, buildings and equipment	\$ 517,438	\$ 435,764
Petroleum and natural gas interests	44,737	18,277
Producing wells	1,428,278	476,547
Gathering systems	533,206	215,029
	<u>\$2,523,659</u>	<u>\$1,145,617</u>

6. Accounts payable from future production revenue:

Under an agreement between Pacific Lighting Gas Development Company of California (Pacific) and Place Gas & Oil Company Limited (Place), Pacific agreed to loan Place funds up to a certain limit in order that Place could meet its obligations relating to exploration costs in certain wells in Pan Arctic Oil Syndicate (Syndicate). Pacific thereby acquired the right to purchase from Place its share of any gas which may be produced from the said wells.

The loan, including accrued interest, a total of \$566,837, is to be repaid to Pacific only out of 25% of the revenue from production from wells for which Pacific advanced funds.

In prior years the interest in the Syndicate less the liability to Pacific, which is dependent on the sale of gas from the said wells, was disclosed as one figure.

7. Share capital:

	<u>Shares</u>	<u>Par value</u>	<u>Discount</u>	
Shares issued:				
For cash	3,800,007	\$3,800,007	\$ 431,375	
For other consideration	2,000,000	2,000,000	1,570,000	
	<u>5,800,007</u>	<u>\$5,800,007</u>	<u>\$2,001,375</u>	<u>\$3,798,632</u>

8. Total remuneration received by Directors and Officers of the company for their services was \$67,955 for 1977.

9. The 1976 figures have been reclassified to conform with 1977 presentation.



PLACE GAS & OIL COMPANY LIMITED

CANADIAN ARCTIC ISLANDS

